

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY PUBLIC SERVICE COMMISSION)	
)	
VS.)	CASE NO. 9478
)	
FLOYD COUNTY, KENTUCKY, AND)	
EAST KENTUCKY UTILITIES, INC.)	

SHOW CAUSE ORDER

East Kentucky Utilities ("EKU") is a non-profit corporation which operates the gas system owned by Floyd County, Kentucky ("Floyd County"). EKU received a certificate of public convenience and necessity from the Commission on December 5, 1979, in Case No. 7561. At the time the certificate was issued a schedule of compliance "to insure a timely solution to deficiencies" was included, in which 37 safety related deficiencies were to be corrected between January 1980 and January 1981. A reinspection of EKU in 1981 showed that of the 37 deficiencies cited in Case No. 7561 all but 5 had been corrected. However, the five deficiencies that had yet to be corrected included the need to "design and install required cathodic protection for system piping," the only effective means by which to protect EKU's steel pipeline.

Between January 1981 and January 1985, the Commission's Gas Section conducted numerous safety inspections of EKU. A review of these past inspections reveals that the operators of the Floyd County gas system have been cited for a number of deficiencies

relating to inadequate maintenance and operation of the system. In each of these safety inspections the ECU operators have been cited for not having a corrosion control program for the steel pipeline in the gas system.

From September 1984 through July 1985, three leak surveys were performed on the ECU system which found a total of 323 different leaks. During each survey several leaks were found that were Grade 1, hazardous leaks, requiring immediate repair. The large number of leaks discovered in these three leak surveys supports the conclusion that the ECU system continues to deteriorate due to the absence of a corrosion control program.

The Commission notes that in the lease executed between Floyd County and ECU to operate the gas system, ECU agreed "to operate said system. . .so as to comply with all rules and regulations of. . .(the) Commission, and shall keep and operate said system in a safe and efficient manner, as required by said regulatory commission." The Commission further notes that during the 1980-1985 period it has repeatedly instructed ECU management to eliminate certain spending practices due to their imprudent or unwarranted nature. ECU failed to do so and line loss increased from 17 percent in 1981 to over 22 percent in 1984.

ECU also has a delinquent bill for gas purchased from Kentucky West Virginia Gas Company ("Kentucky West") of \$317,221.90 (as of May 6, 1986). Kentucky West has advised the Commission that unless ECU agreed to a definite payment schedule to eliminate the delinquency, steps would be taken to suspend gas

deliveries until the delinquency was satisfied. At the time of Kentucky West's notice to the Commission (August 13, 1985) EKU's delinquency to Kentucky West was \$249,705.67.

On August 22, 1985, the Commission issued a Show Cause Order (Case No. 9405) requiring EKU to present "evidence related to (its) delinquent purchased gas account" and to "demonstrate what action (it) intends to initiate to assure adequate gas supplies." EKU has not made arrangements with Kentucky West to resolve the delinquency. Customers of the gas system owned by Floyd County continued to receive gas during the 1985-86 heating season only because Kentucky West did not suspend deliveries to EKU. The Commission is of the opinion that future gas service to the customers of the gas system owned by Floyd County continues to be threatened.

Due to EKU's lack of ability to provide adequate service the Commission finds it necessary for Floyd County, the owners of the gas system, to show cause why the Commission should not conclude that EKU's management of the Floyd County system has not been adequate to operate a gas system in a safe and efficient manner, that a reliable, reasonably priced supply of gas to its customers is threatened, and further, to show cause why Floyd County should not terminate the operating lease with EKU.

IT IS THEREFORE ORDERED that County Judge/Executive John M. Stumbo, Gerald DeRossett, 1st District Magistrate, Jackie Edford Owens, 2nd District Magistrate, Edward Caudill, 3rd District Magistrate and Ermal Tackett, 4th District Magistrate shall appear

before the Commission on August 26, 1986, at 9:30 a.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky, for the purpose of responding to the issues raised herein.

IT IS FURTHER ORDERED that the operators of the Floyd County gas system shall also appear before the Commission on the same date to be available for testimony and response to the issues discussed herein and that may be raised at this hearing.

Done at Frankfort, Kentucky, this 10th day of July, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemen
Chairman

Paul H. L.
Vice Chairman

Spencer N. Williams
Commissioner

ATTEST:

Secretary